TRADE PROMOTION

SPENDING & MERCHANDISING

INDUSTRY STUDY

E^3 PROMOTION

CANNONDALE ASSOCIATES

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TABLE OF CONTENTS

WHO IS CANNONDALE ASSOCIATES?

Cannondale Associates is a leading sales and marketing consulting firm with offices in Wilton, Connecticut and Evanston, Illinois.

The company focus is on assisting consumer packaged goods manufacturers manage the rapidly changing interface with their retailer customers.

EXPERTISE

Our expertise is in all of the critical areas surrounding the manufacturer/retailer relationship:

1. Trade Promotion Management
2. Category Management/Efficient Assortment
3. Customer Loyalty/Equity Management
4. Benchmarking
5. Organizational Design
6. Trade Channel Marketing

EXPERIENCE

Our consulting staff consists of sales and marketing professionals with an average of 15 years of business experience with blue chip packaged goods companies such as General Mills, Coca-Cola, Quaker Oats, Pillsbury, Procter & Gamble and Fort James.

VALUE-ADDED CAPABILITIES

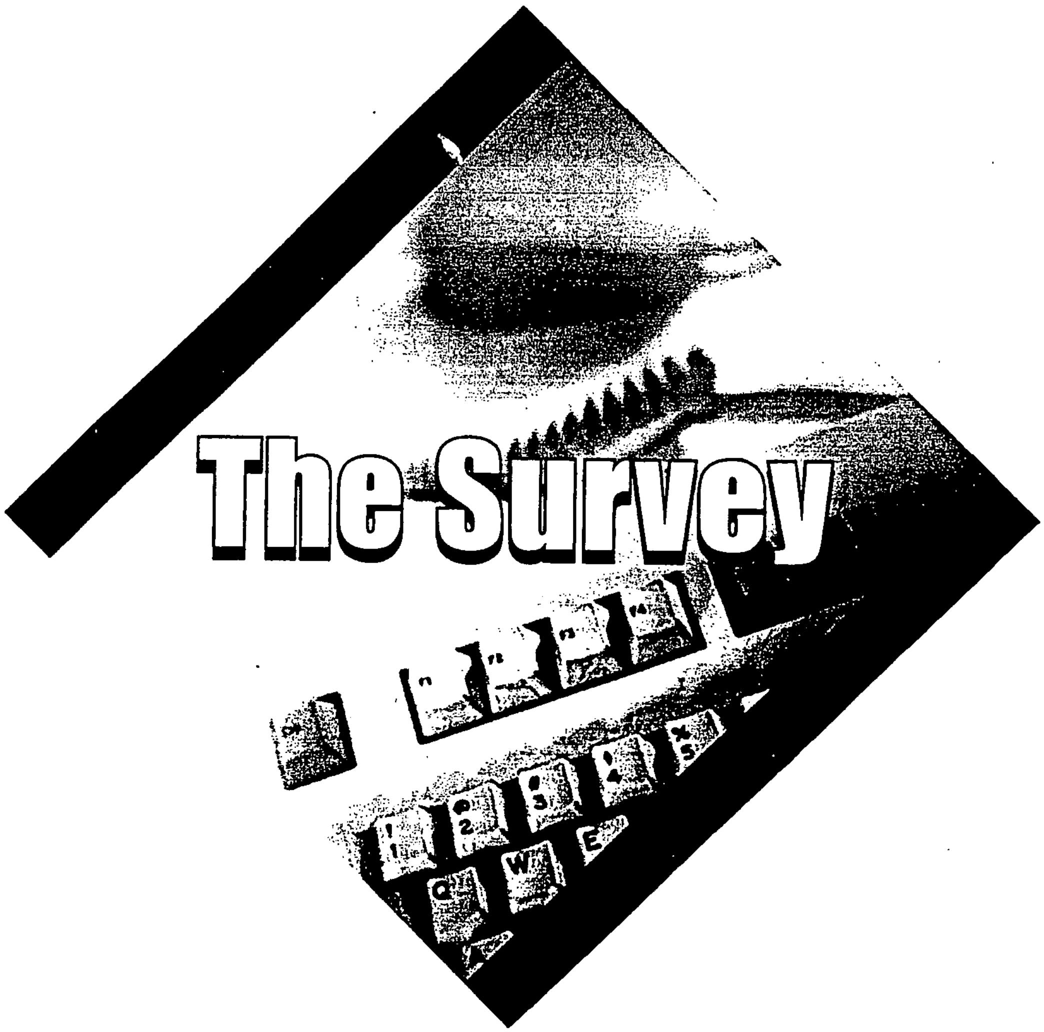
In support of our consulting practice, Cannondale Associates has a strong technology and analytics group, research staff and graphics/production expertise.

SURVEYS

Cannondale produces benchmarking survey reports each year on the following subjects:

- PoweRanking™ of Manufacturers and Retailers
- Trade Promotion Spending and Merchandising
- Category/Loyalty Management

If you are interested in any of the above studies, please call Cannondale Associates at (203) 834-2800.


The Survey

The Survey

RESEARCH OBJECTIVES

Cannondale Associates, a leading sales and marketing consulting firm, has sponsored an annual industry study since 1995 to provide insight into Trade Promotion spending and merchandising practices. The Benchmark Study sought to establish a definitive position on the key issues surrounding Trade Promotion spending and merchandising from both the manufacturer and retailer perspective, outline best practices and identify opportunities for improvement. The overall goals of this 2000 research were to confirm best practices, explain evolutionary changes and identify key opportunities for improvement.

The specific goals of this research were to:

- Assess current Trade Promotion spending and merchandising practices
- Identify projected trends in the industry including equity management
- Understand best practices whereby Trade Promotions are:
  - Planned
  - Executed
  - Controlled
  - Evaluated
- Provide a perspective for capitalizing on key trends including organizational, technological, strategic and executional factors
- Allow manufacturers and retailers the opportunity to assess current policies and practices relative to their competitors
- Assess the opportunity for E-Business to facilitate the Trade Promotion process

METHODOLOGY

Customized questionnaires were developed for both the retail trade and manufacturer communities. These questionnaires were mailed in January 2000, with the assurance of total confidentiality to respondents. Target groups included a broad representation of food, HBC, and general merchandise manufacturers, as well as grocery, drug, and mass retailers. Follow-up qualitative interviews were conducted among randomly-selected manufacturers and retailers to provide additional insights into the data.

PARTICIPANTS

Over 300 manufacturer and retailer participants from all levels of management provided input. Listed below is a sample of some of the leading companies that participated in the survey

RETAILERS

- Abco Foods, Inc.
- Albertson's Inc.
- Associated Wholesale Grocers, Inc.
- Bashas' Inc.
- Big Y Foods, Inc.
- Bi-Lo, Inc.
- Bi-Mart Corporation
- BJ's Wholesale Club, Inc.
- Brookshire Grocery Company
- Bruno's, Inc.
- C&S Wholesale Grocers, Inc.
- Costco
- Cub Foods
- D&W Food Centers, Inc.
- Demoulas/Market Basket
- Drug Emporium, Inc.
- Eby-Brown, Co.
- Family Dollar Stores, Inc.
- Family Fare Inc.
- Farmer Jack
- Fleming Companies Inc.
- Food Lion
- Fred Meyer Stores, Inc.
- Genuardi Family Markets
- Giant Eagle, Inc.
- Giant Food, Inc.
- Harris Teeter, Inc.
- Holiday Stationstores Inc.
- Hy-Vee, Inc.
- Ingles Markets, Inc.
- Jewel Food Stores
- Kohl's Food Stores
- Lowe's Companies, Inc.
- M&E Food Mart, Inc.
- Marsh Supermarkets, Inc.
- Medicine Shoppe International, Inc.
- Minyard Food Stores, Inc.
- Nice n' Easy Grocery Shoppe, Inc.
- Niemann Foods, Inc.
- Pathmark Stores, Inc.
- Phar-Mor, Inc.
- Price Chopper/The Golub Corp.
- Publix Super Markets, Inc.
- Quality Food Centers
- Raley's Supermarkets Inc.
- Red Apples Co. Inc.
- Roundy's Inc.
- Safeway Inc.
- Save Mart Supermarkets
- Schnuck Markets, Inc.
- Seaway FoodTown, Inc.
- Shaw's Supermarkets, Inc.
- Shop 'N Save Warehouse Foods, Inc.
- Shoppers Food Warehouse, Corp.
- Speedway SuperAmerica
- Super Kmart Centers
- SUPERVALU INC.
- Target Stores
- The Bartell Drug Company
- The Great Atlantic & Pacific Tea Company
- The Kroger Co.
- Ukrop's Super Markets, Inc.
- Walgreen Company
- Webvan Group, Inc.
- Wegmans Food Markets, Inc.

MANUFACTURERS

- Adolph Coors Company
- Agrilink Foods
- American Greetings Corp.
- Anheuser-Busch Companies, Inc.
- Armour Swift Eckrich Inc.
- B&G Foods Inc.
- B&W Quality Growers
- Barber Foods
- Bausch & Lomb, Inc.
- Bayer Corporation
- Beiersdorf Inc.
- Ben & Jerry's Homemade Inc.
- Borden Inc.
- Bush Brothers & Company
- Campbell Soup Company
- Celestial Seasonings, Inc.
- Church & Dwight
- Coca-Cola Bottling Co.
- Combe Inc.
- Conagra, Inc.
- Coty, Inc.
- Dannon Co, Inc.
- Dean Foods Co.
- Dial Corporation
- Dole Fresh Vegetables, Inc.
- Empire Kosher Poultry Inc.
- Energizer Battery Co.
- Fort James Corporation
- Frito-Lay, Inc.
- General Mills, Inc.
- Gold Kist Inc.
- Gorton Corp.
- Harmony Foods Inc.
- Heineken USA
- Heinz USA
- Hershey Chocolate, USA
- International Home Foods
- Just Born Inc.
- Kayser-Roth Corporation
- Keebler Company
- Kellogg Company
- Ken's Foods, Inc.
- Kimberly-Clark Corporation
- Kiwi Brands, Inc.
- Kraft Foods, Inc.
- Land O' Lakes, Inc.
- Thomas J. Lipton Co.
- Malt-O-Meal Co.
- Maple Grove Farms
- McCormick & Company, Inc.
- McKesson Water Products Co.
- Mead Johnson Nutritionals
- Miller Brewing Company
- Mrs. Smith's Bakeries, Inc.
- Musco Olive Products, Inc.
- Nabisco, Inc.
- Nestlé USA
- Neutrogena Corp.
- Novartis
- Ocean Spray Cranberries
- Pacific Pre-Cut Produce
- Pepperidge Farm Inc.
- Pepsi-Cola Company
- Perdue Farms, Inc.
- Pierre Foods
- Pillsbury Company
- Pollio Dairy Products
- Procter & Gamble Co.
- Quaker Oats Company
- Ralston Purina Company
- Reynolds Metals Co.
- Rich Seapak Corp.
- Ruiz Food Products Inc.
- S.C. Johnson & Sons, Inc.
- Sara Lee Corp.
- Sargento Foods Inc.
- Schering-Plough Healthcare
- Seneca Foods Corporation
- SmithKline Beecham
- Star-Kist Foods Inc.
- Stella Foods Inc.
- Suiza Foods Corporation
- Tenneco Packaging
- Tetley, Inc.
- The J.M. Smucker Company
- Tree Top Inc.
- Tri Valley Growers
- Tropicana Products, Inc.
- Tyson Foods Inc.
- Unilever
- United Dairy Farmers
- United Distillers Inc.
- United Signature Foods
- Upstate Farms
- Ventura Foods
- Vienna Beef Ltd.
- Vlasic Foods International
- Warner-Lambert Company
- Welch Foods, Inc.
- Wells' Dairy Inc.
- West Farm Foods Inc.
- Whitehall-Robins Healthcare
- Wine World Estates Co.
- Wyandot Inc.
- Zacky Farms

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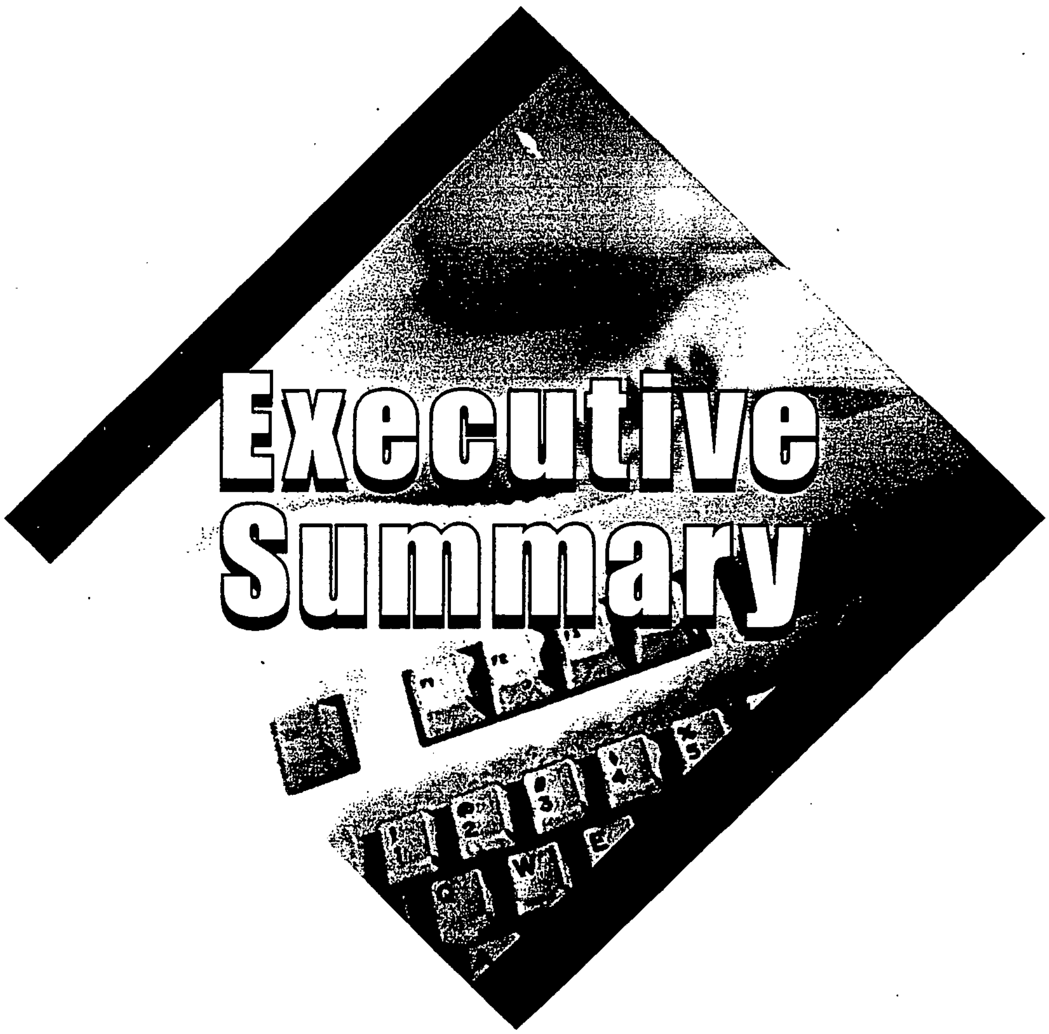
Executive Summary



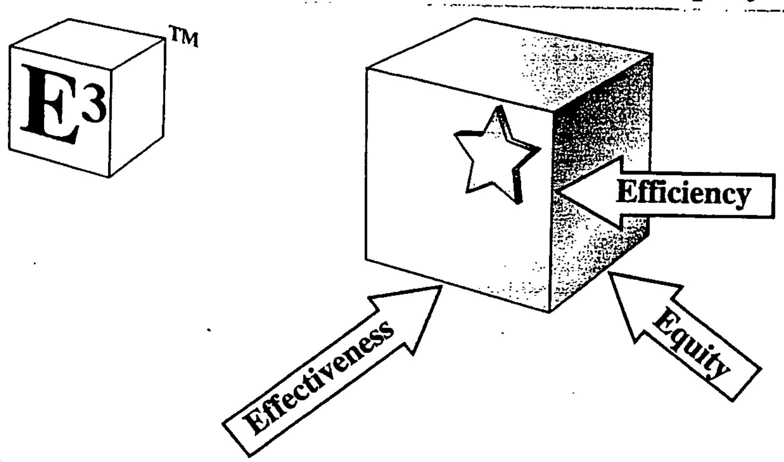
E^3 PROMOTION

Welcome to the brave new world of E^3 promotion. With the advent of frequent shopper cards, trade promotion will never be the same; it is now becoming E^3 promotion.

Last year we introduced the concept of E^3.

This is the ability to evaluate trade promotion expenditures on all dimensions: effectiveness, efficiency and equity.

E^3 = Efficiency * Effectiveness * Equity



KEY MEASUREMENTS:

Effectiveness: Incremental dollar sales, incremental weeks per promoted week

Efficiency: Cost per incremental unit, return on investment

Equity: Loyalty, penetration, frequency and promotion half life

The traditional measures of effectiveness and efficiency have been employed for many years by leading manufacturers. Equity is now coming to the forefront. Equity can be viewed as the effect on the business (both brand and store) over more than just the short term. The equity effect is what happens beyond the lift obtained during the promotion week.

We believe the E^3 concept has even more relevance now for these reasons:

TRADE PROMOTION — THE #1 ISSUE
Trade promotion still remains the number one issue among manufacturers with 90% rating it as very/extremely important. Moreover, a full 60% of manufacturers' marketing budgets are channeled through the retailer despite stated intentions to reduce trade spending.

ACCOUNT-SPECIFIC MARKETING
There has been a significant shift toward account-specific marketing from 7% to 11% of the total marketing budget in 2000 vs. 1999. Both quantitative and qualitative feedback indicate that this increase in account-specific marketing is partially attributable to frequent shopper card program expenditures.

CONSUMER PASS-THROUGH
Consumer pass-through has declined dramatically in the past two years, especially as rated by retailers, from 68% to 59%.

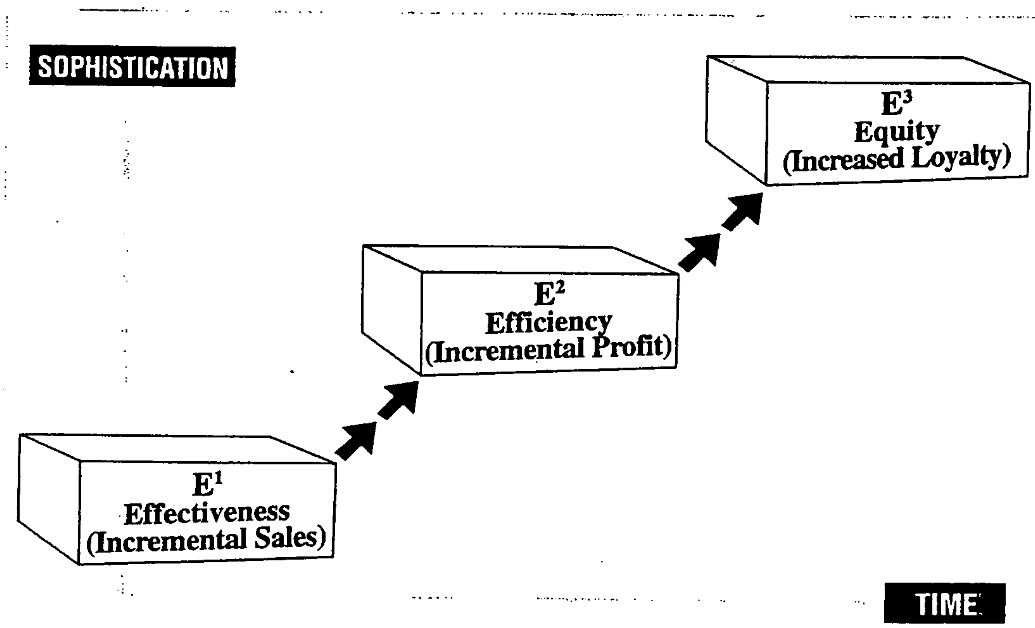
LOYALTY
Manufacturers and retailers both believe that loyalty is strongly correlated to sales and profit performance. The importance of trade promotion to loyalty underlies the need to evaluate equity.

E^3 EVOLUTION

How Do We Know E^3 is for Real?

The E^3 evolution is growing from a solid understanding of effectiveness, or incremental sales, to a better analysis of efficiency, or incremental profit, to an evaluation of equity, or increased brand-building/loyalty.

While the primary focus is still against promotion effectiveness, there is now an increasing focus against efficiency and equity as noted below.



% Competent/Highly Competent in Evaluation

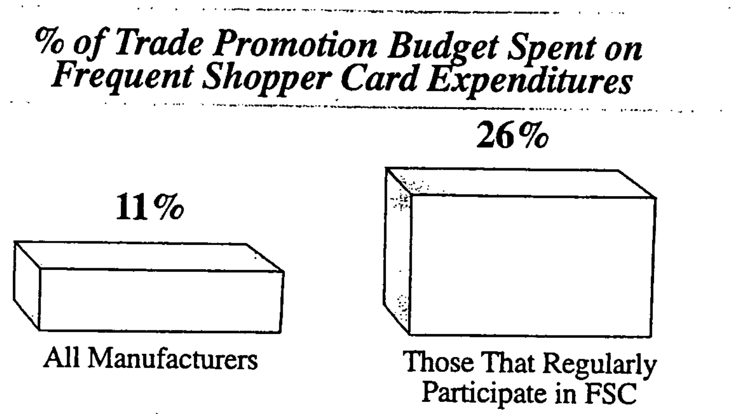
	Effectiveness	Efficiency	Equity
Current Manufacturer State of Art	66%	43%	13%

Last year we said E^3 was a concept. This year, the concept has come to the forefront and is a reality. The E^3 evolution is meaningful, real and targeting equity. This reality is being driven not only by manufacturer interest, but by the broader macro industry factors. In this environment, marketers see their hard-won brand equity being eroded in order to satisfy the voracious appetite of the trade spending budget line. Equity-building trade events can be the answer to turn the tide.

Executive Summary

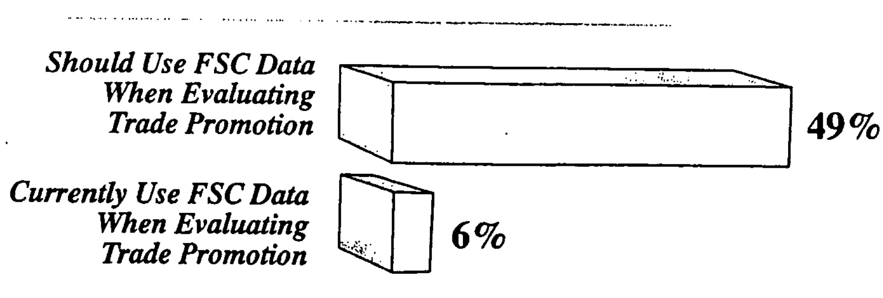
Frequent Shopper Card Programs: The Key To E^3

Frequent Shopper Card programs will increase as a percentage of total trade promotion expenditures. In fact, those manufacturers that regularly participate in Frequent Shopper Card programs are spending over twice as much of their total trade promotion budgets in this critical area.



Additionally, manufacturers agree that Frequent Shopper Card programs will increase as a percentage of trade promotion expenditures.

The opportunity is to better utilize Frequent Shopper Card data when evaluating trade promotion. Currently, only 6% of manufacturers use this data when evaluating trade promotions while nearly half believe they should. Frequent Shopper Card data is essential to evaluate promotion effectiveness, efficiency, and most importantly, equity.



E³ SUMMARY/RECOMMENDATIONS

With Frequent Shopper Card data there is an opportunity to look at Trade Promotions from an equity perspective. Manufacturer promotion objectives are broader and they are beginning to ask such questions as:

- Is trade spending building or eroding my brand equity?
- I know my volume lift, but what is my consumer lift or Lift Quality Index™ (LQI)?
- Do my promotions bring in valuable, potentially loyal users or just "cherry-pickers?"
- Which promotional tactics (merchandising vehicles, price points) drive the best LQI?
- What is my promotion half life?

Frequent Shopper Programs provide the data necessary to successfully measure and build equity. Moreover, this same data provides a rich source for optimizing effectiveness and efficiency. A closer alliance with retailers coupled with an enhanced use of Frequent Shopper data can indeed result in E³ optimization.

The clear opportunity is to merge technology and data to focus on improving promotions — efficiency and effectiveness — and then increasing loyalty and brand equity.

WE RECOMMEND THESE STEPS:

STEP 1: Ensure the fundamentals of efficiency and effectiveness are in place via a strategic evaluation of spending levels and practices across your portfolio.

STEP 2: Determine key parameters of equity measurement for your company's promotions and begin analysis with select retailers.

STEP 3: Ensure that your organizational objectives and incentives are in alignment to achieve effectiveness, efficiency and equity results.

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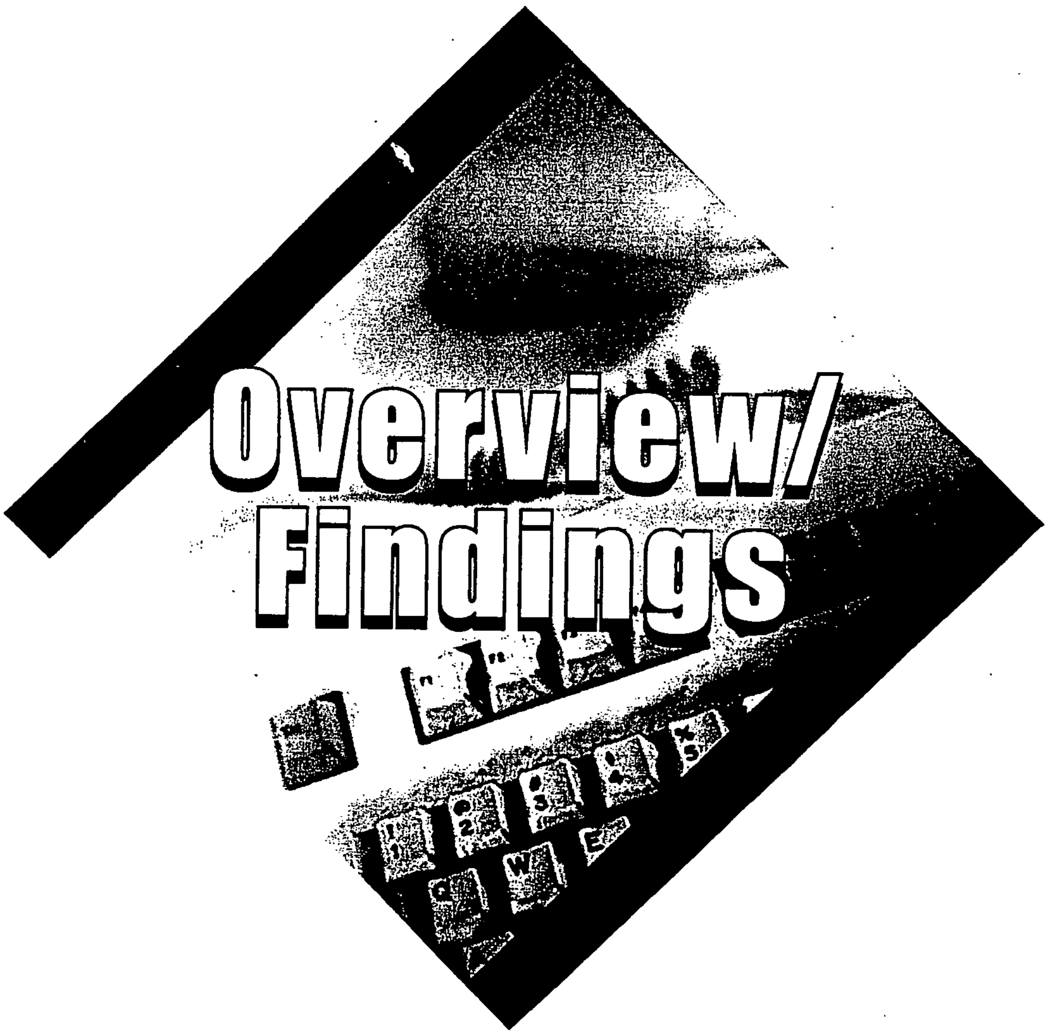
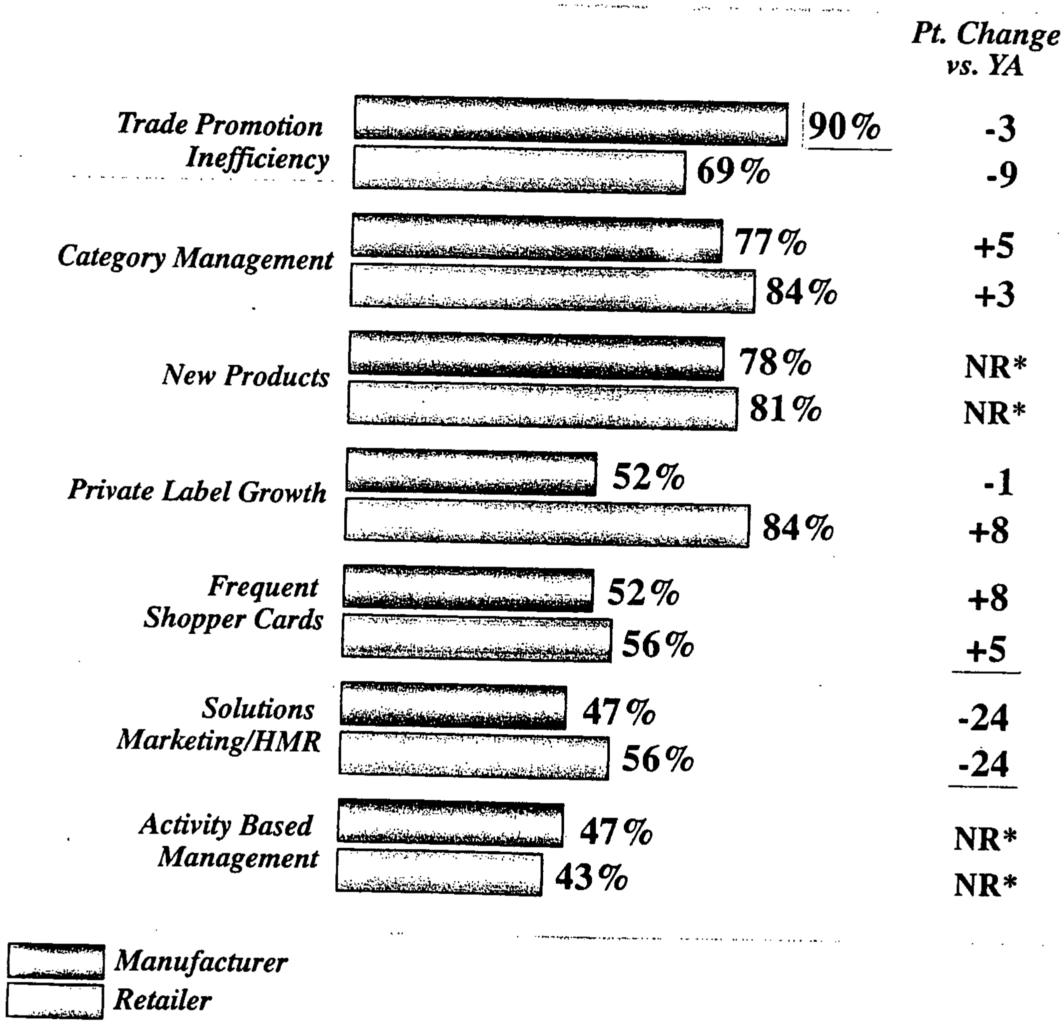

Overview/
Findings

Overview/Findings

SURVEY RESULTS

Results from our Study confirm that trade promotion inefficiency remains the #1 manufacturer issue with 90% of manufacturer participants rating it as very/extremely important[1]. Notable changes in industry ratings were for Frequent Shopper Cards which increased in importance for both manufacturers and retailers, while solutions marketing/home meal replacement fell significantly for both parties.

Industry Issue Importance
Very/Extremely Important[1]



(1) Results for this specific question sourced from 2000 Category/Loyalty Management Study; question was not repeated in Trade Promotion Survey

** Not Rated*

MARKETING EXPENDITURES

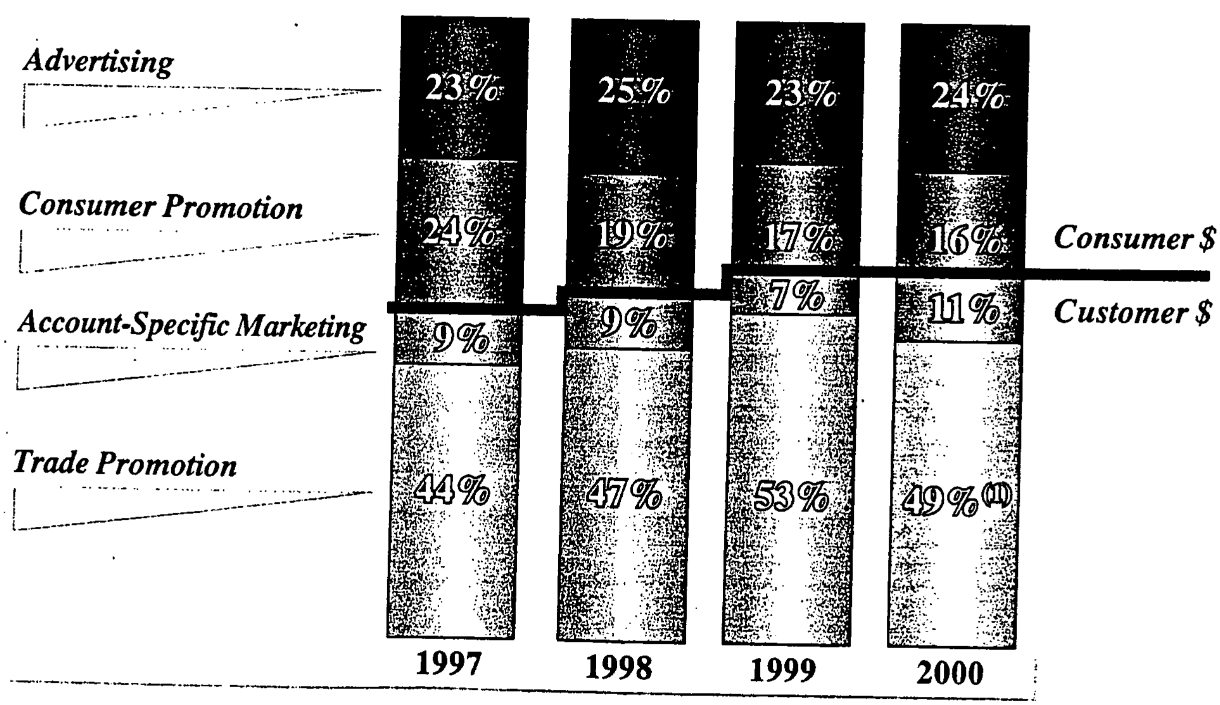
Total Customer Dollars Stable

While the components of manufacturers' marketing budgets have shifted markedly over the past few years, customer dollars remained stable at 60% of the overall budget versus 1999. However when account-specific marketing (ASM) is subtracted, the traditional trade promotion funds actually declined from 53% to 49% of the overall budget. Account-specific marketing funds increased from 7% to 11%. While ASM registered in at 9% of the total budget in 1998, this was primarily due to co-marketing testing. This year, it appears that the primary increase was driven by broader usage of frequent shopper card promotions.

"It appears that frequent shopper cards are here to stay. It is another way for retailers to demand funds from manufacturers' budgets."

- Manufacturer

% of Marketing Budget



	1997	1998	1999	2000
Total Customer $	53%	56%	60%	60%

(1) *Represents 15% of manufacturers' gross sales*

Overview/Findings

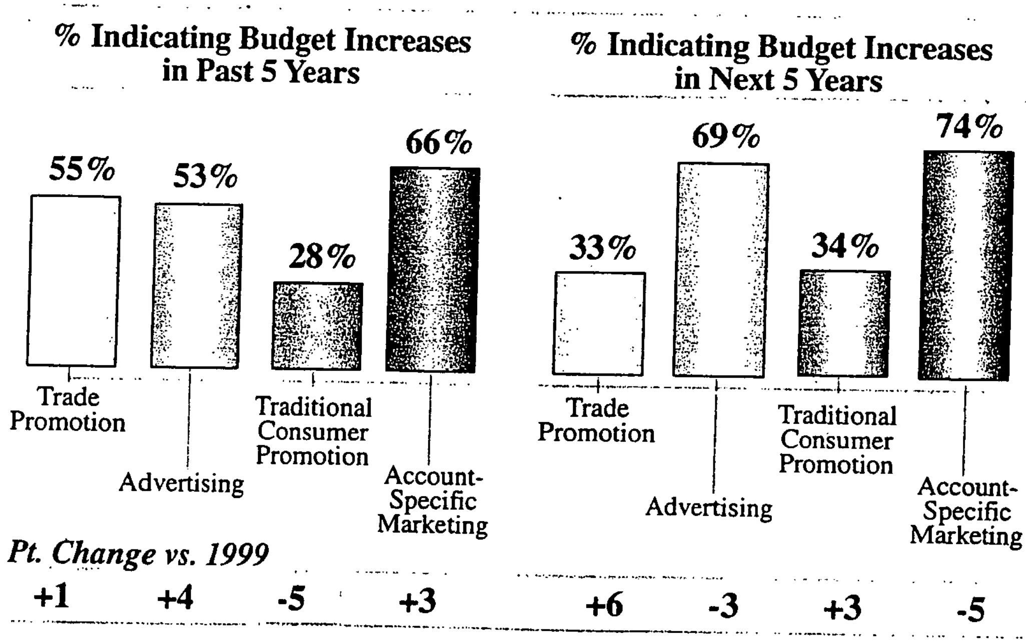
Historical/Projected Changes

This year's survey identified the continued erosion of spending in traditional consumer promotion. Nearly 75% of manufacturers indicated that consumer promotion budgets had not increased in the past five years. In addition, only a third plan on increases in consumer promotion during the next five year period. The importance of this traditional promotional element will continue to decline.

Conversely, manufacturers are realizing the increasingly critical role that retailers play in the marketing of their products. In response, 74% of manufacturers plan on increasing their spending for account-specific marketing including frequent shopper programs.

> *"We fully anticipate that the bulk of our increases in account-specific marketing will be devoted to frequent shopper card initiatives".* - *Manufacturer*

Changes in Marketing Expenditures



Trade Fund Allocations Shifted

A significant shift has occurred in the trade promotion budget composition over the past year. Currently, the three main components, bill-back, discretionary funds and off-invoice, all command approximately the same monetary allocations.

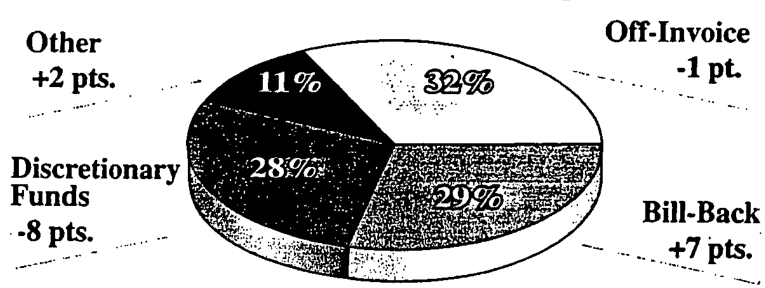
Off-invoice expenditures, once the predominant element of trade promotion spending, continue to decline in importance with only 32% of the budget. Additionally, only 12% of respondents anticipate increases in the off-invoice component.

Discretionary funds, although having lost several share points in the past year, is the only category that has increased dramatically over the past 5 years. The reaction that we have seen recently is a shift of discretionary funds to bill-back. This indicates that manufacturers may not be totally comfortable relegating full responsibility for trade expenditures to the field and would like to "put some teeth" into the agreement.

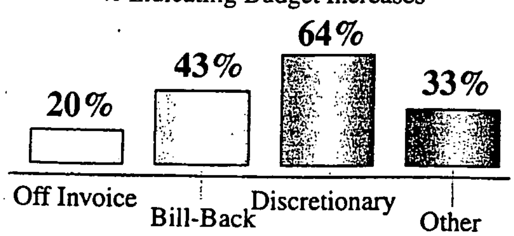
> *"We've allowed exceptional sales latitude over the past few years. We're just not sure what we got from our investment."* - *Manufacturer*

Other expenditures increased from 9% to 11% indicating the increased role that slotting may be playing for all manufacturers and retailers.

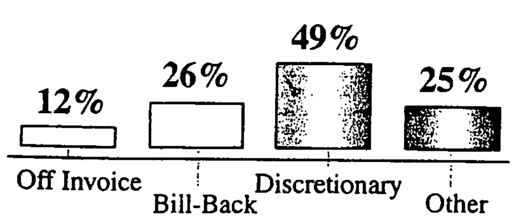
Current % of Trade Promotion Expenditures



Past 5 Year Changes
in Trade Promotion Expenditures
% Indicating Budget Increases



Next 5 Year Changes
in Trade Promotion Expenditures
% Indicating Budget Increases



Pt. Change vs. 1999

-6	+1	+18	+1	-12	NC	NC	-1

LOYALTY

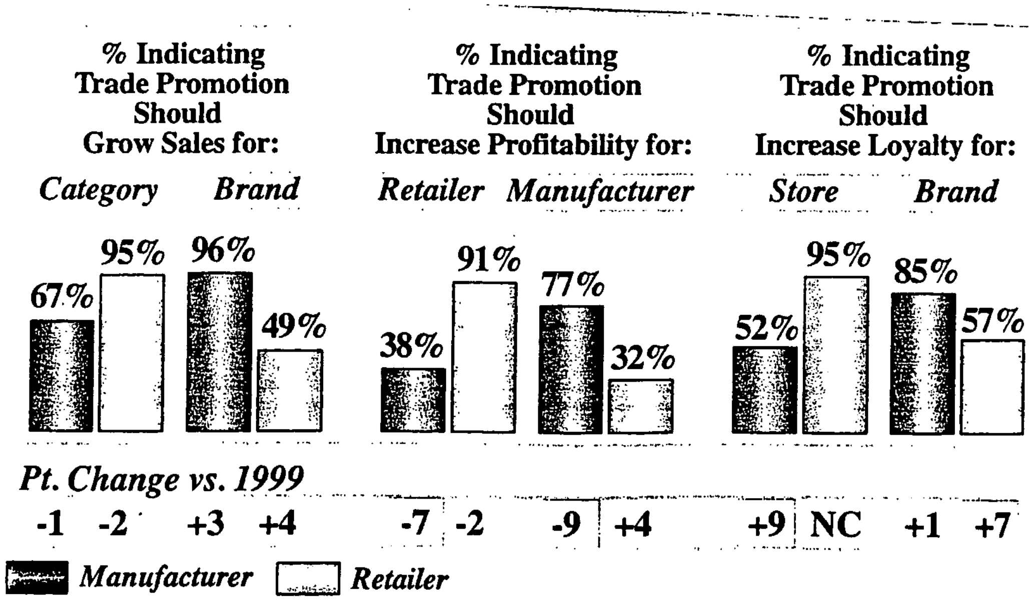
The Price of Loyalty

Last year's survey noted a sharp increase in the expectations for both profitability and loyalty from trade promotion expenditures. This year indicates a continuation of the growing importance of loyalty on both the store and brand levels.

Both manufacturers and retailers are more aware of the needs and interests of their selling partners, and purposely integrate their counterpart's goals into their own objectives. Over half of manufacturers rate that increasing store customer loyalty is a very important goal for them. Paralleling this trend, 57% of retailers indicate that increasing brand loyalty is of particular importance to them. As more retailers and manufacturers understand the value of attaining goal alignment, new trade promotion strategies and tactics can be developed to benefit both partners.

Despite an increase in understanding between manufacturers and retailers, there remains a critical disconnect. Retailers continue to view the growth of category sales, retailer profit and store loyalty as top priorities. Conversely, manufacturers wish to drive advances in both brand sales and brand loyalty.

Overall, manufacturers appear to be more sensitive to the needs of retailers and likely accept the new premises that retailers hold the reigns to sales and that brand loyalty can only be achieved with the support of retailers. There is also a recognition that loyalty has a price. There has been a significant decline in importance of profit measures (-7 pts. and -9 pts.) as rated by manufacturers.

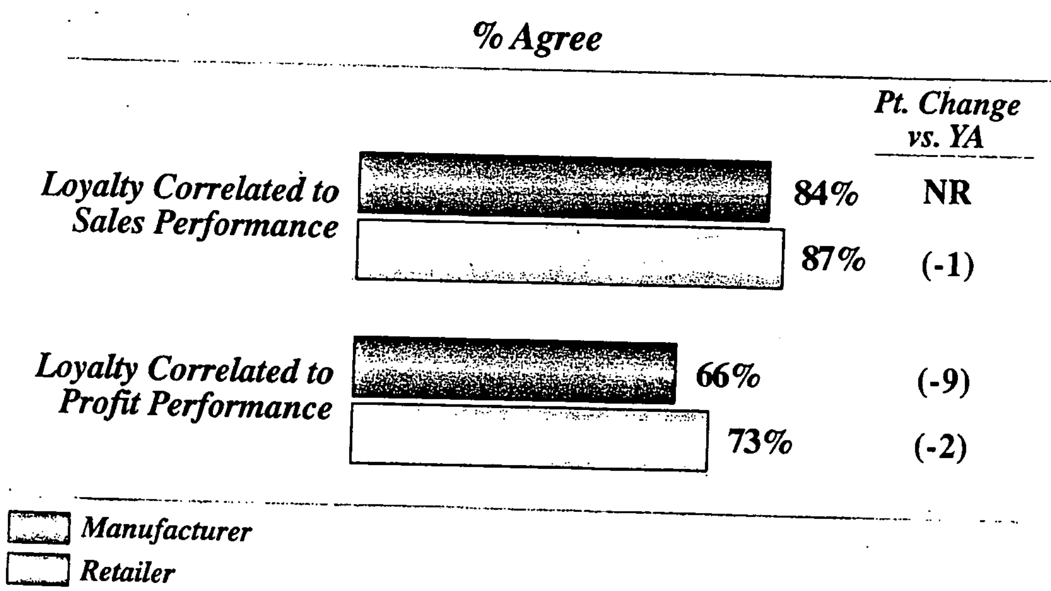


Correlation to Performance

The vast majority of both retailers and manufacturers view performance as highly correlated with store and brand loyalty.

Smart marketers understand that increasing store loyalty as well as their own brand loyalty will best serve all interests in the longer term. This broader view will help to cement the overall partnership and ensure more productive programs.

Of note, however, is a decline among manufacturers in the belief that loyalty affects their profit line — down 9 pts. since 1999. This parallels the results from the previous page that indicated loyalty has a price and that shorter-term profit measures are declining in importance as loyalty comes to the forefront.



Overview/Findings

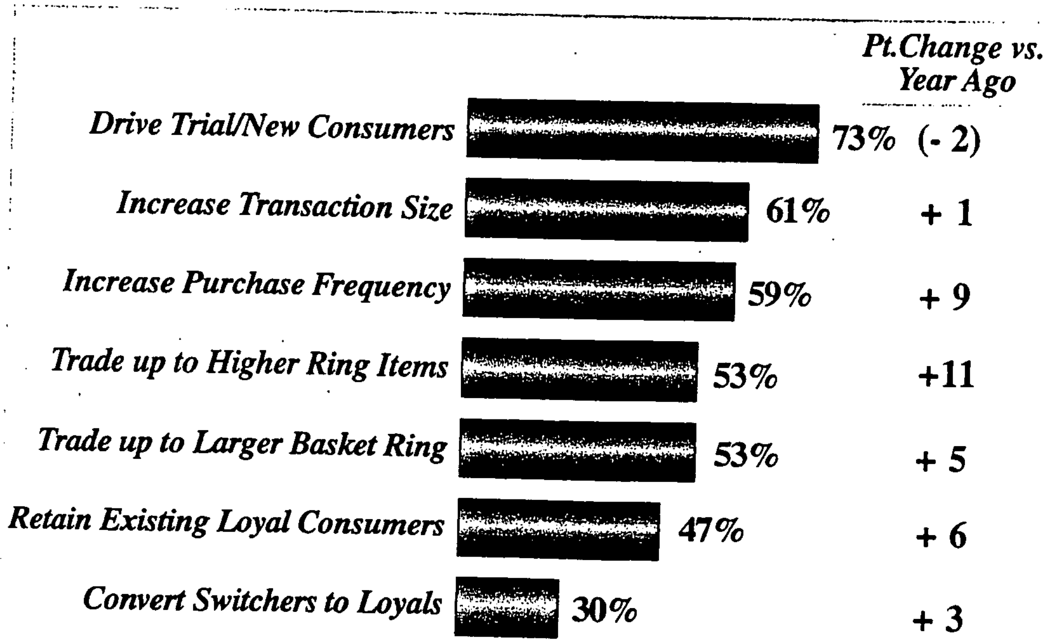
Effectiveness

Our study targeted seven elements of loyalty. Of particular note, manufacturers continue to increasingly view trade promotion as an effective method to achieve loyalty objectives. All measures except one increased in importance versus the prior year. Additionally, nearly three quarters of manufacturers view trade promotion as an effective means to drive trial/new consumers.

> *"It is clear that trade promotion must and is driving loyalty.*
> *The new metrics that we are starting to put in place*
> *are beginning to bear fruit.*
> *We still have a lot of work to do in this area,*
> *but we are beginning to peek around the corner*
> *and see the benefits on the other side."* *- Manufacturer*

The ability to drive increased purchase frequency and trade up to higher ring items/larger baskets is a critical element of effectively driving loyalty via trade promotion.

Trade Promotion is an Effective Method to:

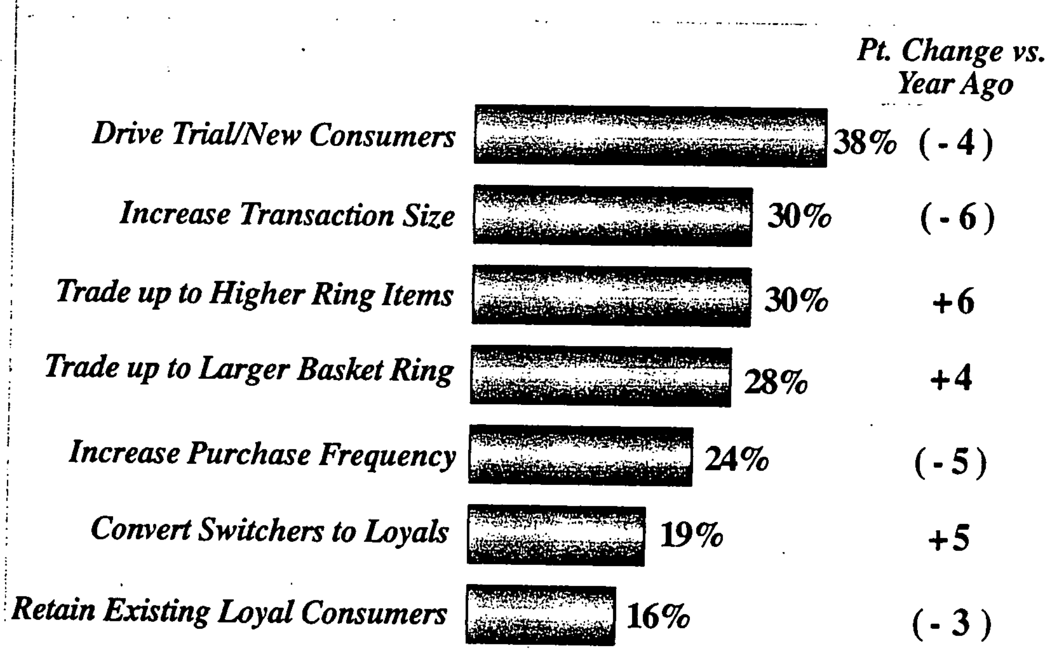


Efficiency

Efficiency of trade promotions[1] in impacting loyalty continues to be a concern for manufacturers. In all categories, no more than 38% of respondents believe that utilizing trade promotion is a cost-efficient method to meet their loyalty goals. While manufacturers more readily agree that trade promotions drive trial or new consumers, they are clearly concerned about the incremental cost necessary to retain or gain an additional loyal consumer.

This finding is consistent with the overall E^3 evolution. Manufacturers first address effectiveness opportunities — Are they driving incremental sales? Then, they turn to efficiency — Are these incremental sales profitable? We anticipate with the advent of broader sharing of frequent shopper card data and more targeted promotions, that efficiency will similarly increase.

Trade Promotion is an Efficient Method to:



(1) Cost per incremental unit

Effective Evaluators

Both sub-groups of manufacturers — leaders who are effective and efficient at evaluating trade promotion and all others — believe that trade promotion is much more effective than it is efficient. Leading manufacturers generated the higher ratings overall.

Effective evaluators clearly differentiate themselves in their belief that trade promotion can both effectively increase transaction size (71% vs. 49% for all other) and increase purchase frequency (69% vs. 49%, respectively). In addition, these leading manufacturers are more optimistic about the cost-efficiency of trade promotion at driving trial/new consumers, increasing transaction size and increasing purchase frequency.

Leaders Are More Effective and Efficient on Key Loyalty Measures

Trade Promotion is a Method To:

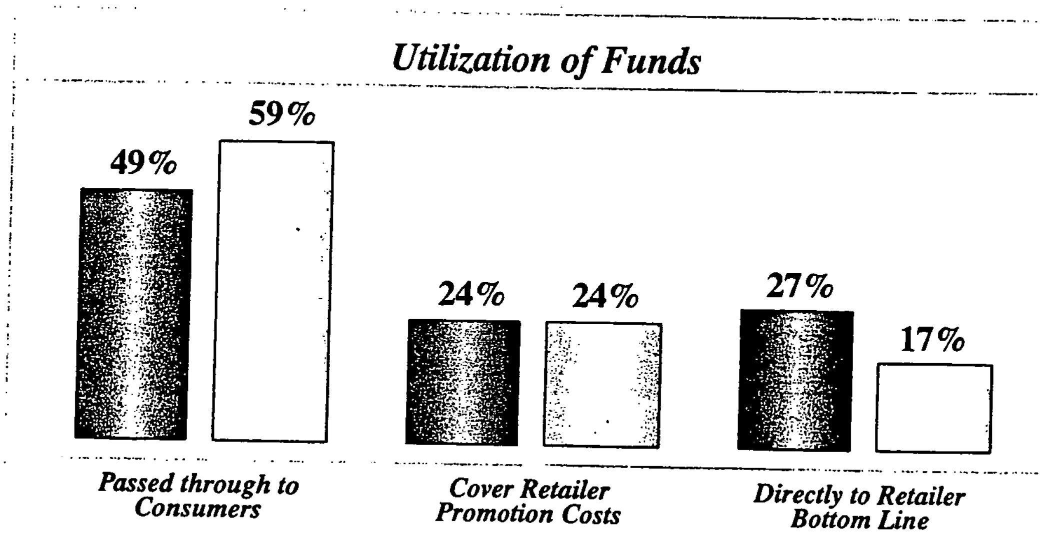
Effectively	**Leaders**	**All Other**
Drive trial/new consumers	75%	71%
Increase transaction size	71%	49%
Increase purchase frequency	69%	49%
Trade up to higher ring items	49%	59%
Trade up to larger basket ring	55%	51%
Retain existing loyal consumers	49%	45%
Convert switchers to loyals	25%	35%

Efficiently	**Leaders**	**All Other**
Drive trial/new consumers	46%	30%
Increase transaction size	37%	21%
Trade up to higher ring items	30%	29%
Trade up to larger basket ring	34%	20%
Increase purchase frequency	30%	17%
Convert switchers to loyals	22%	16%
Retain existing loyal consumers	19%	13%

UTILIZATION OF FUNDS

Consumer pass-through as rated by retailers continues to decline from 68% in 1998, to 63% in 1999, to 59% in 2000. This decline of 9 points represents a shift of over $7.5 billion to the retailer. Manufacturer perception of pass-through has remained relatively constant over the past three years – near 50%.

The result of this decline in pass-through has directly enhanced the retailer bottom line. While manufacturers believe 27% of their trade funds are going directly to the retailer bottom line at the expense of consumer pass-through, retailers claim to pocket only 17% of these funds. Although these views are still widely divergent, just two years ago retailers and manufacturers differed in opinion by 17 points.

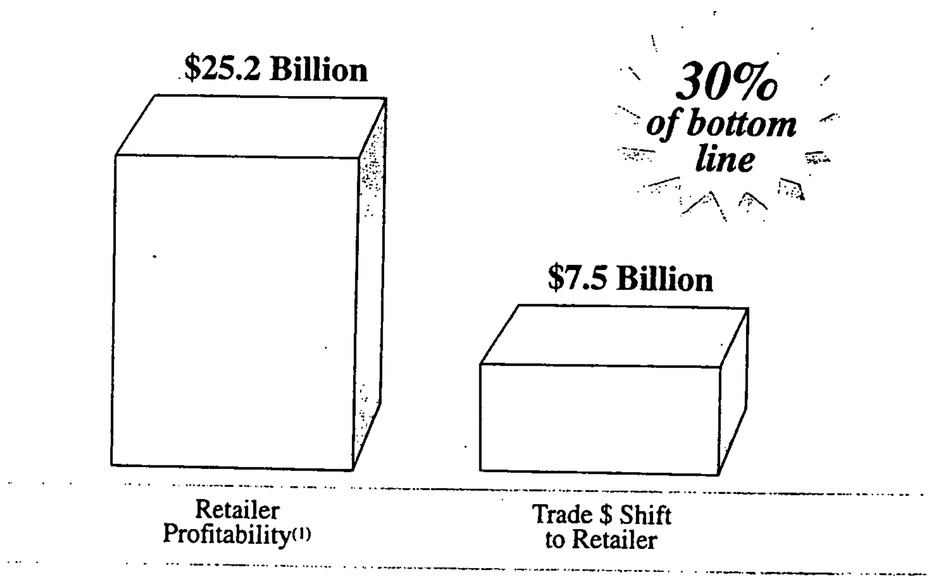


1999	51%	63%	23%	22%	26%	15%
1998	48%	68%	22%	19%	30%	13%

Manufacturer
Retailer

Retailer Bottom Line

Assuming 9% of trade promotion funds have directly shifted to the retailer, this represents approximately $7.5 billion. An analysis of the retail industry as represented by food, drug, mass and c-stores, indicates that this amount represents 30% of net retailer profitability. Without trade promotion funds the retailer landscape would be dramatically different. With the increase in e-business it will be remarkable if these funds do not increase both for traditional retailers as well as for e-retailers.



(1) U.S. Food/Drug/Mass/C-store retailers; 1999 estimates from Fortune and Business Week

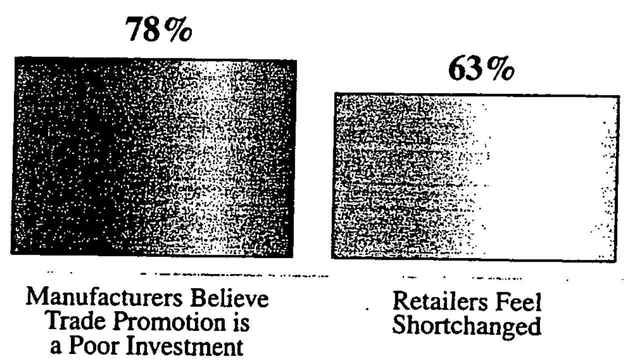
Dissatisfaction

Dissatisfaction with trade promotion pass-through and performance is echoed in the following data. Nearly two-thirds of the retailer sample indicated they are dissatisfied with their share of trade dollars. This sentiment is shared by manufacturers — nearly 80% of manufacturers feel that trade spending is not a good value.

% Agree

78% of manufacturers do not feel they are getting a good value for their trade $

63% of retailers are dissatisfied with their share of trade $



Account-Specific Marketing/Frequent Shopper Card Marketing Are Not Panaceas

Traditional measures of trade promotion performance, including payout and incremental volume, indicate there is still considerable opportunity to increase the effectiveness and efficiency of promotions.

Retailers and manufacturers alike continue to be disappointed with the value of account-specific marketing. Only 24% of account-specific promotions generated incremental volume for retailers down from 51% in 1999, and 61% in 1998. Similarly, manufacturers claim that only 41% of account-specific promotions generated incremental volume, a drop of 24 points from 1998, and 7 points from 1999. Apparently, both manufacturers and retailers have come to the conclusion that account-specific marketing is not a panacea.

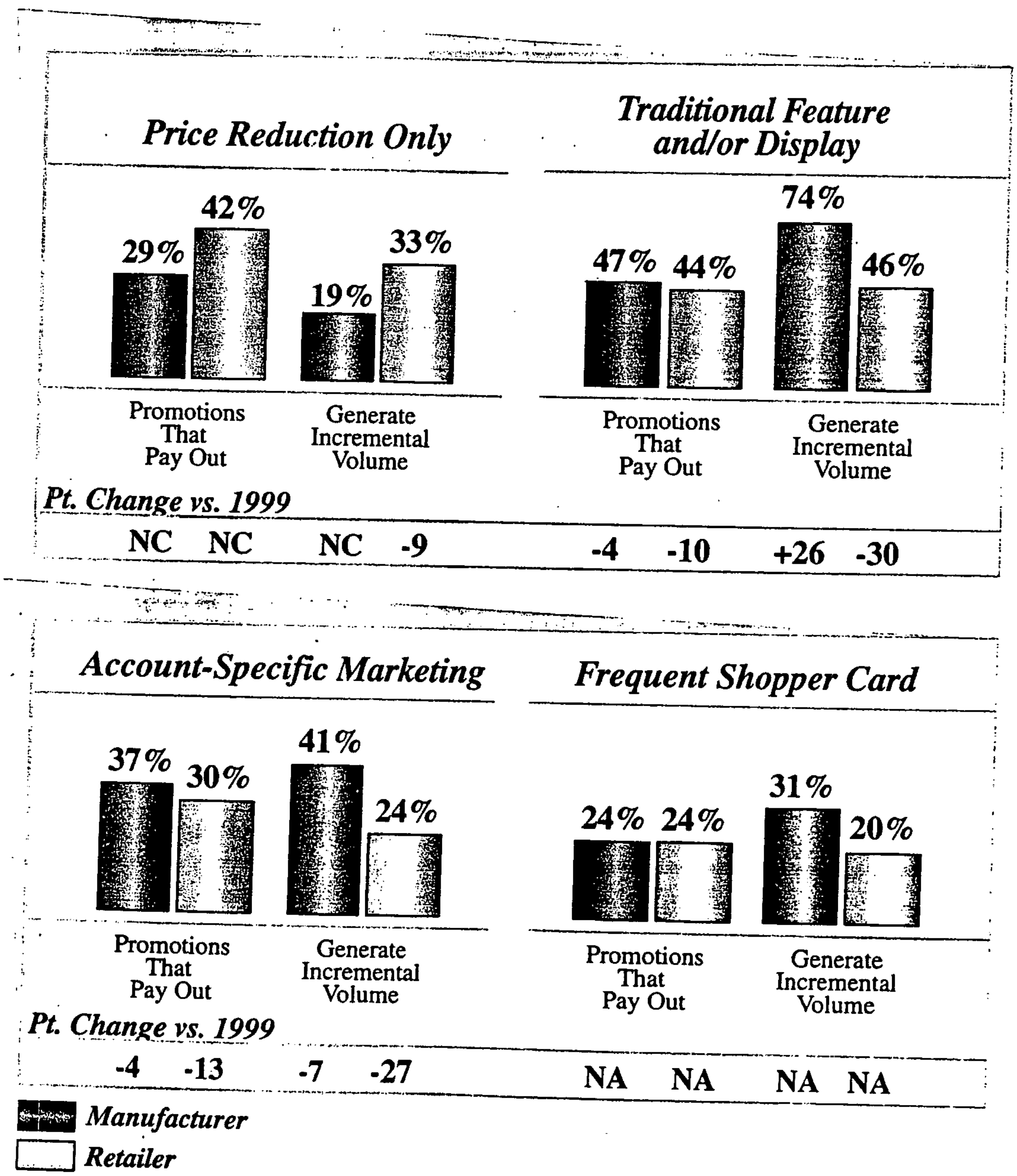
Analysis of frequent shopper card performance indicates similarly low levels of satisfaction. Despite this, 74% of manufacturers plan on increasing this element of their budget over the next five years (see "Changes in Marketing Expenditures"). As this element of the marketing budget continues to increase, retailers and manufacturers will need to share frequent shopper card data to maximize performance of these events.

Of particular interest is the declining incremental volume that retailers are experiencing across the board. Retailers have experienced significant declines in TPR incremental volume, feature and/or display incremental volume, and account-specific marketing incremental volume. Similarly, payouts have declined on most promotions for retailers.

Temporary price reduction (TPR) continues to be the laggard of promotional activities. Retailer and manufacturer opinions have remained consistent over the past year concerning this type of promotion and its inferior performance.

The only significant change in the manufacturer portfolio was an increase in the performance of feature and/or display events. This traditional event drives the most incremental volume.

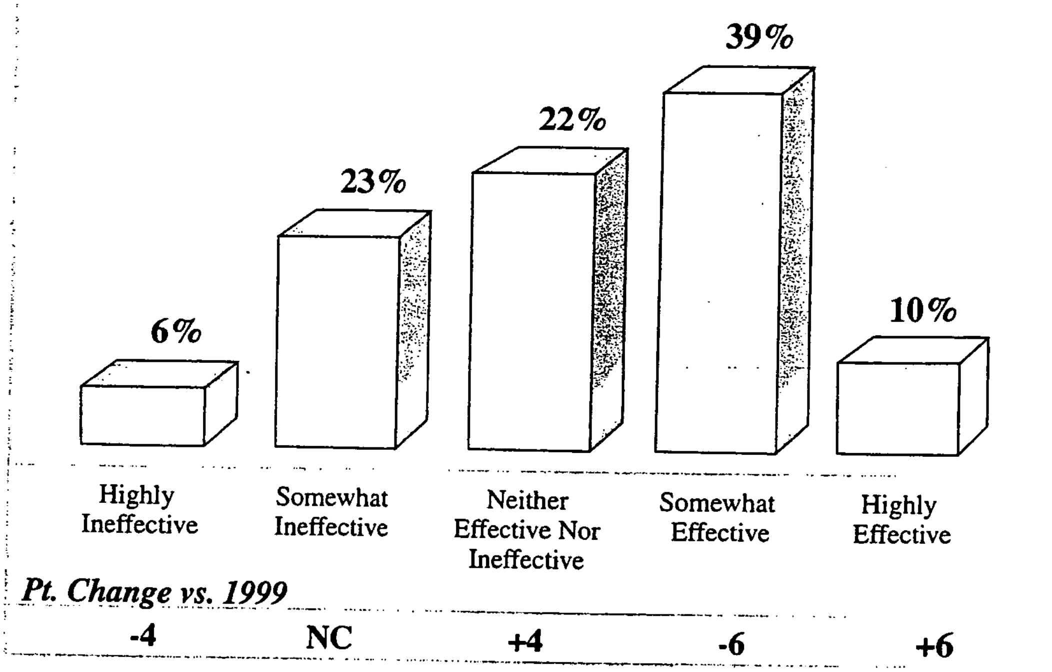
Account-Specific Marketing/Frequent Shopper Card Marketing Are Not Panaceas



COMPETENCY OF EVALUATION

Mirroring last year's results, only about half of respondents believe they are effective at evaluating their trade promotions. Of note was the increase in those who believe they were highly effective, up from only 4% to 10% in 2000.

How Effective is Your Company in Analyzing/Evaluating Trade Promotion Productivity (% of Manufacturers)

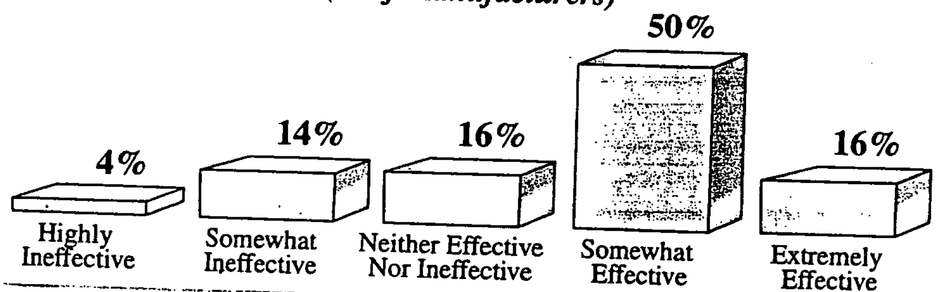


This year's analysis went an additional step to further understand the components of promotion analysis (e.g., sales, profits, loyalty).

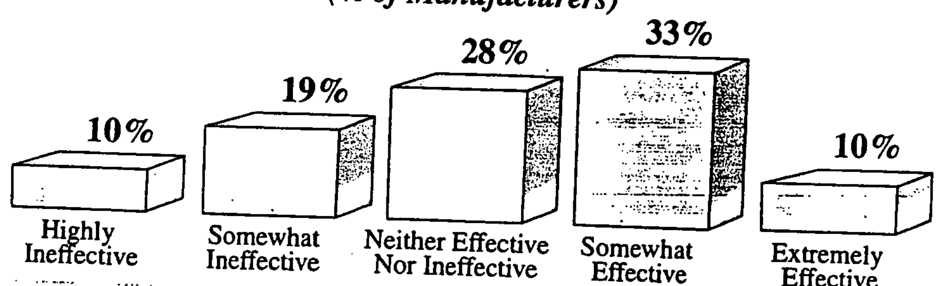
Manufacturer effectiveness at evaluating promotions is rated highest for incremental sales at 66% (somewhat/extremely effective), followed by incremental profitability at 43%, and consumer loyalty/equity at 13%.

The clear opportunity in the years ahead will be to integrate all three elements of the "E^3 equation": effectiveness, efficiency and equity to understand not only the incremental sales and incremental profit, but also the equity enhancing components of trade promotion.

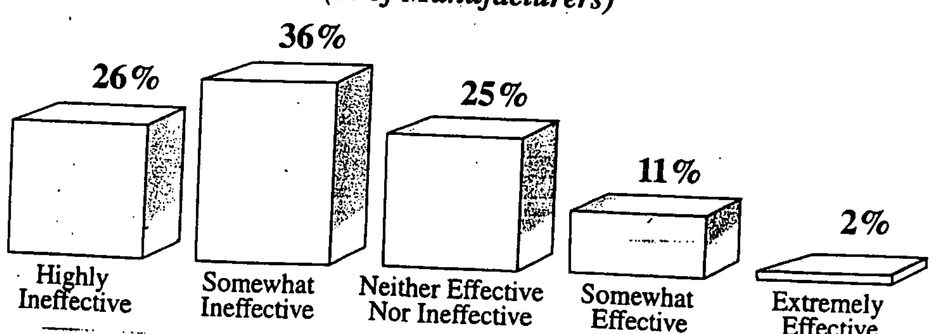
How Effective is Your Company at Evaluating Incremental Sales During Trade Promotions? (% of Manufacturers)



How Effective is Your Company at Evaluating Incremental Profit During Trade Promotions? (% of Manufacturers)



How Effective is Your Company at Evaluating Increased Loyalty from Trade Promotions? (% of Manufacturers)



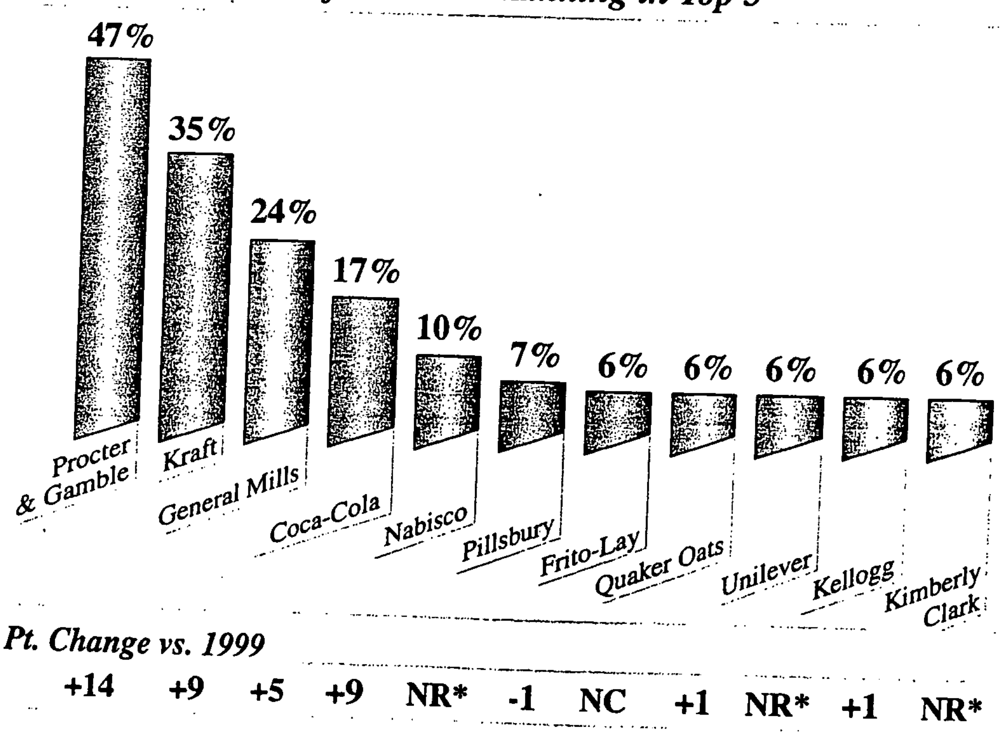
LEADERSHIP: MANUFACTURERS

Who's Who in Utilizing Trade Funds Effectively?

The best just keep getting better. Procter & Gamble has extended its lead this year in the quest to be viewed as the most effective manufacturer utilizing trade funds. But, it should heed Kraft's ascent in the ratings. In addition to P&G and Kraft, General Mills and Coca-Cola have also upped their presence. And, of particular note, Nabisco debuted at the number five spot in this year's ranking.

There appears to be a filtering out of less effective manufacturers, with retailers focusing on the leaders. In the past year, the top manufacturers have all experienced large gains in retailer perception of their effectiveness. Five manufacturers now secure 10% or more of the top three responses, up from three companies in 1999. Off the list this year are Campbell's, ConAgra and Dole.

Who's Who Among Manufacturers
% of Retailers Ranking in Top 3



** Not rated in top 10 in 1999*

Trading Places

Cannondale study sees some light at the end of the inefficiency tunnel.

BY MATTHEW KINSMAN

"Can't live with it, can't live without it" has long been the attitude of packaged goods manufacturers and retailers towards trade promotion. Now that consumer pass-through has reached an all-time low, the credo may become "Can't live without it, can't kill it."

Trade promotion inefficiency is still the single most important issue among manufacturers, according to the latest *Trade Promotion Spending and Merchandising Industry Study* from Cannondale Associates, Wilton, CT.

A full 90 percent of CPGs who responded to the spring Cannondale survey cited the issue as very or extremely important. Retailers didn't place it much farther down, either, with 69 percent listing it as a major concern. Those percentages are lower than last year's study (three percentage points on the manufacturer side, nine among retailers), but not enough to have anyone throwing a party just yet.

"Trade promotion accounts for 15 percent of gross sales and 40 percent of the overall marketing budget," says Don Stuart, Cannondale partner and author of the study. "If you include account-specific marketing [as trade promotion], it accounts for 60 cents of every promotion dollar."

Dissatisfaction remains extremely high on both the retailer and manufacturer sides, according to the survey's 300-plus respondents. Nearly 63 percent of retailers are unhappy with their share of trade dollars, and 78 percent of manufacturers feel trade spending doesn't provide enough value.

The biggest complaint from manufacturers is that retailers are pocketing price breaks instead of passing them on to consumers. Most believe that no better than 49 percent of promotion dollars are passed through to consumers, while as much as 27 percent goes directly to the retailer's bottom line. According to the study, the truth isn't much better: Retailers state that 59 percent of trade promotion dollars are passed on to consumers (down from 68% just two years ago), and that 17 percent is pocketed (up from 13% in '98). "That's a $7.5 billion shift in funds," says Stuart. "If you [again] include account-specific marketing, that can represent 30 percent of the manufacturer's bottom line."

THE BIG PICTURE

Breakdown of marketing budgets, by category

	1999	2000
Advertising	23%	24%
Consumer Promotion	17%	16%
Account-Specific Mktg	7%	11%
Trade Promotion	53%	49%

Source: Cannondale Associates

Feeding the Beast

That hasn't stopped manufacturers from increasing the amount of marketing dollars funneled through retail channels, however: 55 percent of manufacturers have increased trade spending in the last five years, and 66 percent have increased allocations for account-specific programs. In comparison, only 53 percent said they had boosted ad spending in the period, and just 28 percent said they had increased consumer promotion dollars (See chart, pg 52).

Account-specific spending was the Holy Grail for trade promotion in 2000, representing 11 percent of the marketing budget (compared with 7% in '98 and 9% in '97, when co-marketing testing boosted levels). Cannondale cites broader usage of frequent-shopper card programs as the main reason for the increase.

Despite increased spending, results are down: Only 24 percent of account-specific promotions generated incremental volume for retailers, down from 51 percent in the 1999 survey and 61 percent in '98. Marketer estimates were higher at 41 percent, but showed a similar two-year decline. Cannondale suggests that greater sharing of data from frequent-shopper programs and other efforts would help reverse the decline. (Something must be done, because 74 percent of manufacturers plan on boosting allocations for frequent-shopper programs over the next five years.)

Respondents were in agreement on the waning effectiveness of price-reduction programs: only 33 percent of retailers and 19 percent of manufacturers said the tactic generated incremental volume. On the other hand, the two groups disagreed on the effectiveness of traditional features and displays: Manufacturers said that 74 percent of programs generated incremental volume (up 26 percentage points from 1999), while retailers put the figure at 46 percent (down 30 points from last year).

Shining Stars

Praise for the industry's leading manufacturers and retailers is getting greater. Procter & Gamble was again cited most often as the manufacturer that most effectively utilizes trade funds, having been mentioned by 47 percent of retailers — a 14-point increase over 1999. Kraft Foods' reputation also improved, with its citations rising nine points to 35 percent.

Significant gains were also made by General Mills (five points), Coca-Cola

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